

OPEN MEETING AGENDA ITEM



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Brian McNeil
Executive Director

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COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

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ARIZONA CORPORATION COMMISSION

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March 28, 2006

Arizona Corporation Commission

DOCKETED

MAR 28 2006

Chairman Hatch-Miller
Commissioner Spitzer
Commissioner Gleason
Commissioner Mayes
Parties to Docket

DOCKETED BY	JB
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Re: Arizona Public Service Company Emergency Rate Increase, Docket No. ~~E-01345A-06-0009~~; Arizona Public Service Company Rate Increase, Docket No. ~~E-01345A-05-0616~~; Arizona Public Service Company Application for New Experimental Residential Time-Of-Use Rate Schedules, Docket No. E-01345A-05-0674

Dear Colleagues and Parties to the Docket:

I am writing in response to the recent letters from Chairman Hatch-Miller and Commissioner Spitzer concerning APS' emergency rate case.

Let me begin by saying that I have been listening to the parties' responses to Chairman Hatch-Miller's March 23, 2006 letter requesting an analysis of his proposal to expand the 4 mill bandwidth. The Chairman's letter also expressed his desire to delve into the critical issue, "Does APS have the necessary financial means to provide adequate and reliable electric service to its current and future customers?" While he posed this question in the context of APS' emergency rate case, I believe that the issue of APS' phenomenal peak load growth rate – approximately twice the national average for investor-owned utilities – needs to be creatively addressed in the general rate case.

Whatever the outcome of APS' emergency rate case, our decision in that matter will have an impact on the Company's ability to finance the capital expenditures ("CapEx") necessary to build the infrastructure required to serve Arizona. APS has estimated that it will need to make more than \$3 billion in CapEx over the next three years to maintain and expand its system in order to provide reliable electric service to its steadily growing customer base.

I believe that we should be looking for creative solutions in the general rate case for methods of funding the necessary expansion of Arizona's electric infrastructure. I would like to see analyses by the parties in the general rate case on the efficacy of using hook-up fees. We need to "think outside the box." Given the significant peak load growth rate that APS is experiencing and the amount of CapEx necessary to meet that load, I think it is time to explore the option of using hook-up fees so that existing customers are not continually subject to exorbitant rate increases.

In his letter dated March 24, 2006, Commissioner Spitzer expressed his interest in modifying APS' time-of-use programs "as part of a long-term solution." I would voice my support for this concept but make it clear that I would strongly prefer to see modified time-of use programs as part of any near-term solution as well. At the March 14, 2006 procedural

conference for the emergency rate case, I stated that I wanted to vote on these pilot time-of-use programs at the same Open Meeting that we consider the Company's emergency rate request, if not earlier. I have also articulated that it is a priority of mine to make the modified time-of-use programs available to more participants than 20,000 residential customers as proposed by the Company.

Since the procedural conference, Staff has analyzed APS' proposal and docketed its report on March 23, 2006. In its report, Staff recommends increasing the number of customers allowed to participate in the pilot program to 50,000. This matter is tentatively scheduled for the April 4, 2006 Open Meeting. I agree with Commissioner Spitzer's assessment that the events following the 2004 outage at Westwing provide compelling evidence that APS' customers have already taken part in a "pilot program" to adjust their electrical usage. In my view the unprecedented amount of total rate relief sought by APS (through the pending emergency rate case, general rate case, and surcharge request, as well as the rate relief already granted in the last general rate case and through the PSA adjustor mechanism), along with the compelling evidence of APS' customers' willingness and ability to reduce their peak electrical usage, justify immediately expanding the pilot time-of-use tariff to all of APS' residential customers. I shall be offering an amendment to that effect when we consider the new experimental residential time-of-use rate schedules.

Thank you for your attention in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. Mundell". The signature is fluid and cursive, with a large, stylized "M" at the end.

William A. Mundell, Commissioner
Arizona Corporation Commission

cc: Brian McNeil
Lyn Farmer
Chris Kempley
Ernest Johnson